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SUBJECT: UKRAINE'S TIGIPKO: ONCE AND FUTURE NBU CHIEF?

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¶1. (SBU) Summary. In a statement that may presage his return to higher office, former National Bank of Ukraine (NBU) Governor, Rada deputy, and influential commercial banker Sergey Tigipko declared on February 5 that the economic crisis in Ukraine is being consciously prolonged. He blamed inept crisis management, levying his strongest rebukes at the NBU for its exchange rate policies, the Cabinet of Ministers for its budget, and the three branches of government for their wavering. The timing of his remarks was certainly chosen with care, as Tigipko is considered to be a top contender to take over the NBU from Volodymyr Stelmakh, should President Yushchenko decide to drop his support for the disgraced Governor. Notable also is the statement's substance, as Tigipko's knowledge of financial matters and professionalism is generally acknowledged, particularly when compared to other leaders who have consistently failed to take necessary actions during the crisis. End summary.

¶2. (SBU) Tigipko's criticisms, published in the February 5 edition of Kontrakty magazine, focused primarily on the NBU, an institution Tigipko led until 2004. In his manifesto-like statement, he suggested that Ukraine's problems could be solved "in several months, if the country had qualified crisis managers" in positions of responsibility. Pointing to the NBU's policy of "releasing" the exchange rate "without taking other steps," Tigipko said that the NBU's authority as an impartial regulator has been lost, leading to a panic among depositors and widespread social tension. He noted particular measures that the NBU should now embrace, including a greater allocation of liquidity for the interbank market to prevent an "unjustified exchange rate rush."

¶3. (SBU) "All three branches of power and the NBU have to seriously think about sustaining economic growth," said Tigipko, who insinuated that a lack of a coordinated response was prolonging the crisis. Populism has taken important structural reforms off the table, even though some "clipping of the bushes during wintertime" is urgently needed in the budget and state pension system. "All social payments must be totally frozen," Tigipko said. Weak fiscal policy has inhibited a "growth and investment budget," necessary for long-term economic development. Pointing to Ukrzaliznytsia (the state Ukrainian railroad firm), highways, bridges, and other infrastructure projects, Tigipko stated, "Investment does not mean profiteering and instant gains;" rather, it is "momentum for growth." "If we do nothing now, do not help

investors," he warned, "later on such help will be of no use and there will be no one to help."

¶4. (SBU) Tigipko is widely rumored to be a potential replacement for NBU Governor Stelmakh, who the Rada voted to dismiss on January 26 by invalidating Stelmakh's 2004 appointment as NBU head. Although the Rada vote has no legal standing, it was seen as a symbolic slap in the face of President Yushchenko (Stelmakh's ally and friend) and the NBU, for its hamfisted handling of a severe currency devaluation and for corrupt bank refinancing practices (Ref A). While parliament cannot legally dismiss Stelmakh or appoint his successor, it nonetheless attempted to install Tigipko in Stelmakh's place, barely failing in this effort by a few votes.

¶5. (SBU) The Rada vote has led to speculation by media analysts on Stelmakh's departure and even may have concentrated public opinion in favor of Tigipko. In the February 5 edition of Ekonomicheskaya Izvestiya, an influential daily, editors conducted an online poll of the best potential choice for a new NBU chief. Tigipko won in a landslide vote by the paper's informed readership, followed by his former NBU deputy and ex-Rada Speaker Arseniy Yatseniuk, who placed a distant second.

¶6. (U) Tigipko is a current Rada deputy and the chairman of Swedbank's Ukrainian subsidiary. Previously, he was NBU Governor (2002-2004) and campaign director for Viktor Yanukovich during the 2004 presidential elections. In 2007, he sold two major Ukrainian banking assets -- TAS Kommertsbank and TAS Investbank -- to Swedish-owned

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Swedbank AB. The reported total of the transaction was \$735 million dollars, a price some considered above market rate for the then 18th and 34th largest banks in the country.

¶7. (SBU) Comment. To our ear, Tigipko has hit all the right notes with his statement. Budgetary tightening, targeted investment, and greater transparency in the banking sector are urgent priorities for Ukraine that require strong, respected, and well-positioned leadership. Moreover, this message has come at a timely moment, as an IMF team, in Kyiv at least until February 6 to review the Fund's \$16.4 billion package, is struggling to gain agreement with the NBU on a bank recapitalization and resolution framework (Ref B). With Stelmakh gone until at least mid-February and the central bank in limbo, Tigipko may be positioning himself for a return to his erstwhile job. At the very least, he is saying what needs to be said at a critical moment, while other leaders stand idle or act in ways that make the crisis worse. End comment.

TAYLOR